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IN THE

Supreme Court of the United States

QUANTA COMPUTER, INC., *et al.*,

Petitioners,

v.

LG ELECTRONICS, INC.,

Respondent.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF AMICI CURIAE OF CONSUMERS UNION (CU), ELECTRONIC FRONTIER FOUNDATION (EFF), AND PUBLIC KNOWLEDGE IN SUPPORT OF THE PETITIONER

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STATEMENT OF INTEREST[1]

Consumers Union (CU) is an expert, independent, nonprofit organization, whose mission is to work for a fair, just, and safe marketplace for all consumers. CU publishes Consumer Reports and ConsumerReports.org in addition to two newsletters, Consumer Reports on Health and Consumer Reports Money Adviser, with combined subscriptions of more than 7 million.

The Electronic Frontier Foundation (EFF) is a nonprofit, membership-supported public interest organization working to protect consumer interests, civil liberties, innovation, and free expression in the digital world.

Public Knowledge is a Washington, D.C.-based public interest group working to defend citizens' rights in the emerging digital culture.

Amici share a common interest in assisting the courts to strike the appropriate balance between the rights of intellectual property owners and the public.

SUMMARY OF ARGUMENT

For more than a century, the patent exhaustion doctrine has marked the border between the intellectual

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[1] No counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than *amici curiae*, their members, or their counsel made a monetary contribution to its preparation or submission. The parties have consented to the filing of this brief.

property rights of patentees and the personal property rights of consumers. In the words of this Court, "in the essential nature of things, when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use." *Adams v. Burke*, 84 U.S. (17 Wall.) 453, 456 (1873). Consequently, according to a century-old line of Supreme Court and lower court precedents, when a consumer purchases a patented product, that consumer owns it outright, and the patent owner may not thereafter invoke patent law to restrict its post-sale use, repair, or resale.

In 1992, however, the Federal Circuit in *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), abruptly broke with this Court's patent exhaustion precedents, reimagining the doctrine as merely a unilaterally disclaimable "implied license."[2] Thanks to *Mallinckrodt* and its Federal Circuit progeny, and despite contrary rulings by this Court, consumers now find themselves confronted by a growing array of "label licenses" that purport to impose post-sale restrictions on the patented goods they buy. *See, e.g.*, *Ariz. Cartridge Remfrs. Ass'n v. Lexmark Int'l, Inc.*, 421 F.3d 981, 983-84 (9th Cir. 2005) ("single use only"

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[2] This Court briefly endorsed the "implied license" view of patent exhaustion in *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912), only to regret it and return to the traditional rule a few years later in *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917). In overruling *A.B. Dick*, the Court noted that the "implied license" view of exhaustion had resulted in the "immediate and widespread adoption" of use restrictions on patented products. *See id.* at 515.

restriction on laser printer toner cartridges); *Jazz Photo Corp. v. Int'l Trade Comm.*, 264 F.3d 1094, 1107-08 (Fed. Cir. 2001) ("single use only" language contained in camera instructions); *Hewlett-Packard Co. v. Repeat-O-Type Stencil Mfg. Corp.*, 123 F.3d 1445, 1453 (Fed. Cir. 1997) ("single use only" language contained in insert for inkjet printer cartridges).

By empowering patent owners to conjure what amount to servitudes that run with patented goods, the Federal Circuit has impermissibly and unwisely expanded patent scope by judicial fiat. As patentees increasingly exploit their ability to impose such unfair restrictions and enforce them in infringement actions, consumers will increasingly suffer the following distinct harms:

- Increased information costs when trying to ascertain restrictions on patented goods;
- Erosion of the well-established right to repair patented goods;
- Interference with the functioning of vibrant secondary markets (such as eBay and Craigslist) enabled by new technologies;
- Diminished opportunities for "user innovation"; and
- Expanded use of inefficient and unfair price discrimination in connection with patented goods.

There are no countervailing policy advantages that justify the imposition of these harms on consumers and the economy at large.

At the same time, a return to the principles enunciated in this Court's patent exhaustion precedents will not undermine the incentives that patent law affords patent owners. Patent owners, like property owners generally, will remain free to rely on contract law if they would like to restrict post-sale uses of their products. From the perspective of consumers, however, contract law is better equipped to address the concerns that commonly arise when a patentee attempts to impose post-sale use restrictions on patented goods.

In the instant case, the Federal Circuit relied on its misguided *Mallinckrodt* line of cases in reversing the district court and holding in favor of Respondent LG Electronics, Inc. (LGE). This Court should take the opportunity to reverse the Federal Circuit's ruling and overrule its *Mallinckrodt* line of cases, thereby restoring the traditional patent exhaustion doctrine.

ARGUMENT

I. The Federal Circuit's Interpretation of Patent Exhaustion is Inconsistent with this Court's Precedents.

As ably explained in Petitioners' opening brief, the Federal Circuit's reimagining of patent exhaustion as merely an "implied license" simply cannot be squared with this Court's precedents. Pet. 15-28. On this point, the leading commentators are in unanimous agreement.

See Mark R. Patterson, *Contractual Expansion of the Scope of Patent Infringement Through Field-of-Use Licensing*, 49 Wm. & Mary L. Rev. 157, 168-71 (2007); James B. Kobak, Jr., *Contracting Around Exhaustion: Some Thoughts About the CAFC's Mallinckrodt Decision*, 75 J. Pat. & Trademark Office Soc'y 550, 554-59 (1993); Richard H. Stern, *The Unobserved Demise of the Exhaustion Doctrine in U.S. Patent Law: Mallinckrodt v. Medipart*, 15 Eur. Intell. Prop. Rev. 460, 461 (1993).[3]

This alone provides a sufficient basis to reject the Federal Circuit's misguided *Mallinckrodt* approach. To hold otherwise would be to disrupt settled legal and marketplace expectations reaching back to *Adams v. Burke*. Over the course of more than 100 years, both Congress and private parties have acted in reliance on the principle that "sale of [a patented good] exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article." *United States v. Univis Lens Co.*, 316 U.S. 241, 250 (1942).[4] In light of this long settled

[3] Even commentators who are skeptical of the substantive merits of this Court's exhaustion precedents agree that the Federal Circuit's gloss on them constitutes a "creative misreading of the prior texts." *See* Glen O. Robinson, *Personal Property Servitudes*, 71 U. Chi. L. Rev. 1449, 1469 (2004).

[4] The Court has come to the same conclusion in the copyright context, *see Quality King Distribs., Inc. v. L'Anza Research Int'l, Inc.*, 523 U.S. 135, 152 (1998) ("The whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution."); *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350-51 (1908) (rejecting publisher's infringement claim premised on minimum resale price restriction printed in a book).

practice, LGE bears a heavy burden in asking this Court to endorse the Federal Circuit's contrary approach, which expressly allows patent owners to impose post-sale restrictions on patented goods. *See Payne v. Tennessee*, 501 U.S. 808, 827-28 (1991) ("Considerations in favor of *stare decisis* are at their acme in cases involving property and contract rights, where reliance interests are involved. . . .").

II. Empowering Patent Owners to Impose Post-Sale Use Restrictions on Patented Goods Will Harm Consumers.

An endorsement of the *Mallinckrodt* line of cases would not only upset settled expectations stretching back more than a century, but would also threaten the legitimate interests of American consumers in at least five distinct ways.

First, the Federal Circuit's rule increases information costs for consumers by creating uncertainty regarding their freedom to use, repair, and resell the patented goods they own. In the tangible property context, the desire to minimize unnecessary information processing costs has long been a motive force behind the common law's aversion to servitudes that run with chattel. *See* Thomas W. Merrill & Henry E. Smith, *Optimal Standardization in the Law of Property: The Numerus Clausus Principle*, 110 Yale L.J. 1, 26-34 (2000) (describing market externalities that arise from creation of idiosyncratic servitudes on chattel). The same concern has been echoed in this Court's patent exhaustion precedents. *See Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 667 (1895) ("[T]he inconvenience and annoyance

to the public that an opposite [rule] would occasion are too obvious to mention."). In other words, the patent exhaustion doctrine allows consumers to trust that the ordinary use, repair, and resale of the tangible goods they purchase will not give rise to an infringement suit at the hands of the patentee who sold it to them. *See* Molly Shaffer Van Houweling, *The New Servitudes*, 96 G'town L. J. (forthcoming 2008)[5] (observing that this Court's exhaustion precedents are "part of an effort to maintain the informational simplicity of commerce in things that 'pass from hand to hand,' even where those things are burdened with intellectual property rights.").

The contrary outcome seems preposterous—how can a patentee sue consumers for using products purchased from authorized vendors? Yet this is precisely the counterintuitive result that LGE seeks here. Going "single use" restrictions one better, LGE here relies on what amounts to a "zero use" notice to trump the patent exhaustion principle. Purchases from LGE's authorized seller, Intel, were accompanied by a "notice" that purported to withhold any LGE patent rights in the goods purchased. Although Petitioners here are wholesale manufacturers, LGE could just as easily require the delivery of similar "notices" to consumers, reserving the right to demand further royalties or otherwise restrict the use, repair, or resale of computers that incorporate its patented inventions.

LGE's effort here is just one example of the mischief that *Mallinckrodt* unleashes by ushering in an era of chattel servitudes backed by patent law. This will

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[5] Available from http://ssrn.com/abstract=1028947.

increase information costs for consumers and impede the smooth functioning of markets. Consider the personal computers at issue in this case. Under the Federal Circuit's "implied license" view of exhaustion, a consumer would have to scour the product, packaging, and accompanying literature to determine whether the product is subject to any patents and, if so, whether any binding post-sale restrictions might apply to its use.[6] *See* Merrill & Smith, *supra*, at 27-34 (discussing difficulties facing consumers in a world where wrist watches could be burdened with unusual servitudes). Even if the consumer were able to ascertain the existence and nature of these post-sale restrictions, she is unlikely to know at the time of purchase whether these restrictions will impede as-yet-unanticipated future uses of the product. *See* Van Houweling, *supra* ("Thus the purchaser of an inexpensive laser printer may not fully contemplate how burdensome it will be to respect a requirement that the printer only be used with non-recycled ink cartridges, nor how undesirable that restriction may make the printer if recycling technology improves, nor how environmentally harmful it will be to use new instead of recycled cartridges.").

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[6] Patent law already imposes considerable information costs on consumers, insofar as products may infringe the patents of unknown third parties. *See, e.g.*, Roger Parloff, *Microsoft Takes on the Free World*, Fortune, May 28, 2007 (Microsoft alleges that competing Linux software violates more than 200 patents). In addition, consumers increasingly face information costs arising from the spread of "shrinkwrap" licenses. *See Hill v. Gateway 2000, Inc.*, 105 F.3d 1147 (7th Cir. 1997) (addressing form contracts included with a personal computer). Undermining the patent exhaustion doctrine would further exacerbate these costs for consumers.

These information costs are compounded as the computer passes from hand to hand in secondary markets. When the initial purchaser donates the computer to charity or sells it on eBay, how will the new owner divine the nature of the restrictions that may encumber it, especially if the product has long since been separated from its original packaging and accompanying materials? Imposing information costs of this kind on relatively inexpensive tangible goods is likely to lead to inefficiency and surprise, interfering with the "policy in favor of mobility" long embraced by personal property law.[7] Zachariah Chafee, *The Music Goes Round and Round: Equitable Servitudes and Chattels*, 69 Harv. L. Rev. 1250, 1261 (1956).

Second, the Federal Circuit's *Mallinckrodt* rule threatens to undermine the consumer's well-established right to repair a patented product without fear of patent infringement liability. This Court's precedents have long distinguished repair from reconstruction, making it clear that repair activities short of reconstruction fall outside the scope of the patent. *See Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 342-43 (1961).

The Federal Circuit's rule jeopardizes not only a consumer's ability to repair his own goods, but also

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[7] Servitudes are tolerated on real property in part because land is less mobile and typically much more expensive, making the relative information costs much lower. *See* Van Houweling, *supra* ("[N]on-possessory use restrictions make property transactions more troubling for chattels than for land because most transactions in chattels could otherwise be frequent, simple, and fast, on account of the inherent mobility and relative cheapness of chattels.").

threatens independent product refurbishers and repair services, insofar as "label license" prohibitions on re-use or repair could be brought home against such services by patent infringement actions.[8] In fact, patent owners have already moved to exploit the *Mallinckrodt* rule in an effort to eliminate secondary markets in refurbished goods. *See Ariz. Cartridge Remfr. Ass'n v. Lexmark*, 421 F.3d at 986-87 (invoking *Mallinckrodt*, patent owner asserts "single use only" license on laser printer toner cartridges to impede sales of independently refilled cartridges).

As anyone who has ever sought automotive repair services is well aware, consumers are better off with a wide array of competing providers of post-sale service and repair. *Cf.* Peter Wayner, *Don't Throw Out Your Broken iPod; Fix It via the Web*, N.Y. TIMES, Nov. 8, 2007, at C11 (describing increasing number of repair resources available to consumers on the Internet). And while efforts by manufacturers to monopolize markets for repair and maintenance services are nothing new, both Congress and the courts have exercised great care to protect independent providers of these services from manufacturers' anticompetitive invocations of their intellectual property entitlements.[9] The Federal Circuit's

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[8] *See generally* Amicus Curiae Brief of Automotive Engine Rebuilders Ass'n, Automotive Parts Remfrs. Ass'n, and Int'l Imaging Tech. Council in Support of the Petitioners.

[9] *See, e.g.*, 17 U.S.C. § 117(c) (copyright exception intended to protect computer maintenance services); *Storage Tech. Corp. v. Custom Hardware & Engineering Consulting Inc.*, 421 F.3d 1307, *reh'g denied*, 431 F.3d 1374 (Fed. Cir. 2005) (rejecting (Cont'd)

Mallinckrodt approach would represent an unjustified departure from this sensible policy, to the ultimate detriment of consumers.

Third, the Federal Circuit's cramped view of patent exhaustion imperils the vibrant new secondary markets made possible by new Internet technologies. Thanks to companies like eBay and Craigslist, consumers now have access to highly efficient secondary markets for an unprecedented variety of goods. This enables a consumer not only to find second-hand and discounted goods more easily, but has also added considerable real-world value to the consumer's right to resell the products he owns. As the millions who have used eBay to sell an obsolete computer, unneeded television, or overlooked exercise machine can attest, secondary markets provide consumers with valuable opportunities to clean out the attic, salve buyers' remorse, and make a few dollars into the bargain. This, in turn, contributes to an efficient marketplace, moving goods into the hands of those who value them most highly.

"Single use only" and "not for resale" labels and notices pose a threat to these vibrant new secondary markets. Thanks to the *Mallinckrodt* line of cases, patent owners can now invoke these post-sale restrictions and

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(Cont'd)
manufacturer's effort to use copyright to block independent computer maintenance services); *Image Tech. Services, Inc. v. Eastman Kodak Co.*, 125 F.3d 1195, 1219-20 (9th Cir. 1997) (rejecting as pretextual patent justifications for refusing to supply parts to independent service bureaus); *Volkswagenwerk Aktiengesellschaft v. Church*, 411 F.2d 350, 352 (9th Cir. 1969) (rejecting trademark claim against independent VW repair shop).

threaten intermediaries like eBay with secondary patent infringement liability, effectively disrupting these markets.[10]

Fourth, post-sale use restrictions imposed under the patent laws may interfere with the kinds of "user innovation" that scholars have recognized as an important contributor to advances in many fields. As explained by Professor Eric von Hippel:

> The user-centered innovation process . . . is in sharp contrast to the traditional model, in which products and services are developed by manufacturers in a closed way, the manufacturers using patents, copyrights, and other protections to prevent imitators from free riding on their innovation investments. . . . [A] growing body of empirical work shows that users are the first to develop many and perhaps most new industrial and consumer products. Further, the contribution of users is growing steadily larger as a result of continuing advances in computer and communications capabilities."

Eric von Hippel, *Democratizing Innovation* 2 (2005). This "user innovation" is far from an isolated activity: "Empirical studies show that many users—from 10

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[10] This risk is not merely hypothetical—in the copyright context, for example, major record labels have been using "not for resale" labels to trump the first sale rights of eBay sellers, sparking litigation. *See* Mike Musgrove, *Online CD Seller Fights Suit*, WASH. POST, Sept. 22, 2007, at D2.

percent to nearly 40 percent—engage in developing or modifying products." *Id.* at 4.

The patent exhaustion doctrine provides breathing room for this kind of innovation (so long as a user's activities do not cross over into the exclusive rights of the patent owner). So, for example, when early wind-surfing enthusiasts decided to add foot-straps to existing sail-boards, they had nothing to fear from any patents that might have applied to the pre-existing boards they had purchased. *Id.* at 1. Similarly, when bicycling enthusiasts in the 1970s began combining existing bicycle parts into what would eventually be commercialized as "mountain bikes," they were free to build and sell experimental combinations to their fellow enthusiasts. *Id.* at 72-73.

In the wake of the Federal Circuit's *Mallinckrodt* ruling, in contrast, this breathing room for user innovation could easily be curtailed as patent owners festoon their products with labels announcing "modifications prohibited," "for personal use, not for resale," or "for combination only with other authorized components."[11] *See* Julie E. Cohen & Mark A. Lemley, *Patent Scope and Innovation in the Software Industry*, 89 Cal. L. Rev. 1, 33-34 (2001) (discussing effect of the

[11] This Court recently held that patentees may tie the sale of patented products to the purchase of nonpatented products, at least absent a showing of market power in the tying product. *See Illinois Tool Works, Inc. v. Independent Ink, Inc.*, 547 U.S. 28 (2006). The Federal Circuit's *Mallinckrodt* line of cases invites patentees to go a step further, tying the post-sale *uses* of patented goods to other goods sold or licensed by the patentee (e.g., "for combination only with other authorized components").

Mallinckrodt rule on innovation in software context); Richard H. Stern, *Post-Sale Patent Restrictions after Mallinckrodt—An Idea in Search of Definition*, 5 Alb. L.J. Sci. & Tech. 1, 12-19 (1994) (describing various post-sale restrictions likely to be imposed by patentees in the wake of *Mallinckrodt*).

Fifth, the Federal Circuit's ill-conceived inversion of the patent exhaustion doctrine threatens to encourage inefficient forms of price discrimination that will harm consumers. Many, perhaps most, post-sale use restrictions imposed by patent holders will be designed to facilitate price discrimination. Field-of-use and single-use restrictions, for example, are often used to charge different prices to different groups of customers, while preventing them from engaging in arbitrage. *See* Patterson, *supra*, at 159-60.

Questions of whether and in what circumstances price discrimination is socially desirable have long sparked controversy among economists, law-makers, and consumers alike. *See* William W. Fisher III, *When Should We Permit Differential Pricing of Information?*, 55 U.C.L.A. L. Rev. 1, 10-37 (2007) (describing consumer, legal, and economic perspectives on price discrimination). All patents grant some power to price discriminate. Where the patent exhaustion doctrine is concerned, however, a judicial grant of *expanded* price discrimination powers to patent owners is unwarranted.

As cogently explained by Professor Wendy Gordon, "price discrimination is at best a mode of ameliorating a monopoly's effects," and thus cannot serve as a justification for expanding patent scope and creating new

monopolies. Wendy J. Gordon, *Intellectual Property as Price Discrimination: Implications for Contract*, 73 Chi.-Kent L. Rev. 1367, 1390 (1998). To be sure, economists have long theorized that, "[i]n comparison with a monopolist charging a single price, a monopolist with a price-discrimination structure might be preferable." *Id.* at 1383. But where patented goods are concerned, the assumption of a single-price monopolist is rarely met, in large part because the patent exhaustion doctrine itself facilitates secondary markets that create competition for the patentee. By enabling these secondary markets, a robust patent exhaustion doctrine makes resort to the "second best" solution of a price-discriminating monopolist unnecessary. "Other things being equal, consumers are better off if price differences result not from one supplier's efforts to discriminate, but rather from the presence of additional suppliers." *Id.* at 1389.

If the ability of patentees to price discriminate requires buttressing, moreover, the job properly falls to Congress, not the courts. Economists and legal commentators agree that

> [I]t is impossible to say, in the abstract, whether price discrimination increases or decreases aggregate social welfare. Rather, whether it is beneficial from the standpoint of allocative efficiency depends upon the character of the markets that the discriminating firm seeks to keep separate—and that a ban on price discrimination would aggregate.

Fisher, *supra*, at 22; *accord* Louis Kaplow, *The Patent-Antitrust Intersection: A Reappraisal*, 97 Harv. L. Rev. 1813, 1874-78 (1984). In other words, the theoretical virtues of price discrimination in certain cases are offset by the costs of such discrimination in others. In addition, even where price discrimination does increase aggregate social welfare, it comes at an important cost—a precipitous increase in the consumer surplus appropriated by the monopolist. *See* Kaplow, *supra*, at 1875-76. The difficult task of weighing these costs, benefits, and uncertainties across the entire patent system and deciding whether patentees need expanded price discrimination powers is for Congress, not the Federal Circuit. *See* Gordon, *supra*, at 1383 (concluding that evaluation of the welfare impact of price discrimination involves "difficult empirical questions of a kind Congress is best able to resolve."); Pet. 44-45.

Moreover, the Federal Circuit's *Mallinckrodt* line of cases will encourage price discrimination not just among today's patent owners—it will also encourage others to engage in wasteful legal maneuvers to avoid limitations imposed in other areas of law. For example, in *Quality King Distribs., Inc. v. L'Anza Research Int'l, Inc.*, 523 U.S. 135 (1998), this Court refused to allow a hair care products manufacturer to use *copyrighted* labels to block reimportation of authorized products produced in the U.S. for sale abroad. In the wake of *Mallinckrodt*, however, companies may today be tempted to accomplish the same goal by relying on patent law. Already, a company called Net Enforcers is counseling manufacturers to obtain design patents on product packaging and similar features, emblazon their products with "not for resale" labels to evade the patent

exhaustion doctrine, and use patent infringement actions to block resale of the goods.[12] This tactic would accomplish with design patents what this Court held in *L'Anza* copyrighted labels could not.

* * *

The foregoing are illustrative (but likely not exhaustive) of the harms that the Federal Circuit's disruption of the patent exhaustion doctrine has caused, and will continue to cause, to consumers.[13]

By disregarding more than a century of patent exhaustion precedent and legislative acquiescence, the Federal Circuit has worked an unsupportable judicial expansion of the scope of the patent monopoly. With this expansion of patent scope will come a net wealth transfer from consumers to patent owners. *See* Stern, *Post-Sale Patent Restrictions, supra*, at 10-11 ("Probably, most of the time the result of the *Mallinckrodt* doctrine will be a wealth transfer from customers to the patentee."). Unless it can be shown that this additional diversion of consumer surplus into the pockets of patent owners is necessary in order to sustain adequate incentives for inventive activity, this transfer would constitute an undeserved windfall. *See Motion Picture Patents*, 243 U.S. at 511 ("It is undeniably true, that the limited and

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[12] *See* Net Enforcers, "How to Virtually Eliminate Gray Market through Copyright, Trademark and Patent Enforcement" (http://www.netenforcers.com/pdf/scuba.pdf).

[13] For these same reasons, the Court should clarify that the patent exhaustion doctrine applies equally to method and apparatus claims. *See* Pet. 35-38.

temporary monopoly granted to inventors was never designed for their exclusive profit or advantage; the benefit to the public or community at large was another and doubtless the primary object in granting and securing that monopoly.") (quoting *Kendall v. Winsor*, 62 U.S. 322 (1858)).

III. Contract Law is the Proper Tool for Protecting the Patentee's Legitimate Interests in Restricting Post-Sale Uses.

While an endorsement of the Federal Circuit's *Mallinckrodt* rule would harm consumers, its rejection will impose no unfair hardship on patent owners. The restoration of this Court's patent exhaustion precedents simply puts patent owners back in the same position they were in prior to *Mallinckrodt*: "[I]t seemed clear for most of [the 20th] century that a patentee could go virtually nowhere in limiting its customers' conduct, except for restrictions shown necessary to protect health, safety, and product reliability." Stern, *Post-Sale Patent Restrictions, supra*, at 5. During those years, there was no indication that the exhaustion doctrine was undermining or damaging the patent system.

Nor does a robust patent exhaustion doctrine leave patent owners without the ability to control post-sale uses of their products; like owners of copyrights or tangible property, patentees may use contract law (rather than patent law) to enforce any legitimate post-sale use restrictions.

From the perspective of consumers, however, there are critical differences between post-sale use restrictions

imposed as a matter of contract and those enforced on pain of patent infringement liability. Contract law is much better adapted to take into account the countervailing policy concerns raised by such restrictions.

For example, as described above, one set of difficulties that arise from patent-based servitudes on patented goods is rooted in the problem of notice.[14] The problem of notice, moreover, is exacerbated as goods travel from hand to hand in secondary markets. Fortunately, contract law includes a variety of doctrines that mediate these notice issues, including assent and privity.

In addition to better addressing the requirement of notice, contract law also better reconciles post-sale use restrictions with the imperatives of federal antitrust and intellectual property policy. As pointed out by Petitioners, if post-sale use restrictions are deemed to be within the scope of the patent itself, there is a danger that such restrictions will be effectively immunized from antitrust scrutiny. In contrast, where restrictions are merely contractual in nature, antitrust law, supplemented by the patent misuse doctrine, can step in to regulate particular contracts and business arrangements. Pet. 50-51; Patterson, *supra*, at 169-71

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[14] LGE appears to concede as much, arguing that post-sale restrictions should be enforceable in an infringement action, so long as the defendant had adequate notice of the restriction. However, rather than rely on well-developed contract law doctrines meant to address the problem of notice, LGE seemingly invites the courts to create a new set of notice doctrines for patent law.

(examining the excessive deference that arises from the Federal Circuit's "rule of reason" review of post-sale use restrictions by patentees after *Mallinckrodt*).

Moreover, where a contractual restriction is concerned, courts can apply federal conflict preemption principles to override restrictions that would improperly interfere with countervailing policies embodied in the patent laws. *See Lear, Inc. v. Adkins*, 395 U.S. 653, 674 (1969) (holding contract barring licensee from challenging patent validity void under patent law); Mark A. Lemley, *Beyond Preemption: The Law and Policy of Intellectual Property Licensing*, 87 Cal. L. Rev. 111, 139 (1999). In contrast, if this Court follows the Federal Circuit's lead and embraces post-sale use restrictions as authorized by the patent grant itself, then preemption principles will not apply.

Finally, contract law stands ready to strike down particular contract terms that are unconscionable or against public policy. Similar doctrinal bulwarks against unreasonable post-sale use restrictions are, at best, nascent in patent law, and would require years of additional litigation to develop. Although the Federal Circuit has articulated the requirement that post-sale use restrictions be "reasonably within the patent grant," *Mallinckrodt v. Medipart*, 976 F.2d at 708, that test has largely been overlooked by courts in the years since *Mallinckrodt*. *See* Patterson, *supra*, at 170-71, 176-81.

In short, consumers have reason to prefer a world where patentees must proceed under contract law if they desire to impose post-sale restrictions on their products.

CONCLUSION

For the foregoing reasons, this Court should reassert its exhaustion jurisprudence, overrule the Federal Circuit's *Mallinckrodt* line of cases, and reverse the Federal Circuit ruling below.

Respectfully submitted,

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